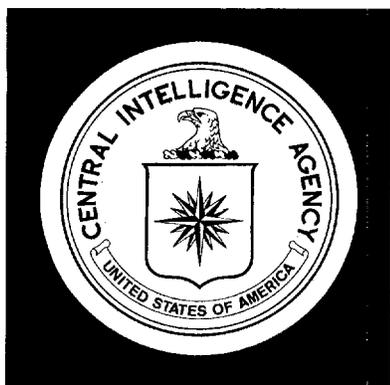


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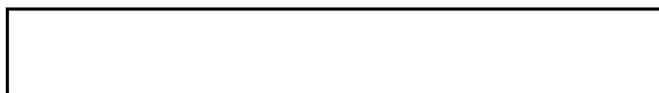
Central Intelligence Bulletin

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January 24, 1974



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Approved For Release 2004/07/08 : CIA-RDP79T00975A026000160001-5

January 24, 1974

Central Intelligence Bulletin

CONTENTS

EGYPT: President Sadat urges lifting of oil embargo against US. (Page 4)

JAPAN: Inflation Japan's most immediate economic problem. (Page 6)

INTERNATIONAL MONETARY DEVELOPMENTS: Yen subjected to heavy downward pressure. (Page 7)

CAMBODIA - NORTH VIETNAM: Sihanouk probably will discuss Communist dry-season campaign while in Hanoi. (Page 8)

EC - MIDDLE EAST: The Nine discuss proposals to set up joint EC-Arab committees on cooperation. (Page 10)

CHILE: New regulation prohibits activities by political parties. (Page 12)

ARGENTINA: Peron gains popular support for anti-terrorist campaign. (Page 13)

CHINA: The Party Commands the Gun. (Page 15)

FOR THE RECORD: (Page 19)

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026000160001-5

Next 2 Page(s) In Document Exempt

Approved For Release 2004/07/08 : CIA-RDP79T00975A026000160001-5

EGYPT: President Sadat has been urging the Arab oil producers to lift their embargo against the US once a Syrian-Israeli disengagement has been implemented.

The Egyptian ambassador in Abu Dhabi told the US chargé that Sadat recommended this course in his talks last weekend with United Arab Emirates President Shaykh Zayid, [REDACTED]

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[REDACTED] Sadat publicly implied his feelings on a lifting of the embargo when he remarked in an Algiers press conference on January 22 that every change in US policy toward the Arabs should bring a corresponding change in Arab policy.

Sadat is working for an early easing of oil restrictions in response to US mediatory efforts in the disengagement negotiations. He cannot press too hard, however; not only does he not control the oil weapon, but he must also avoid giving the impression that oil, having served Egypt's own ends thus far, need no longer be used to serve the interests of other Arabs.

Sadat thus made it clear in his talk with Shaykh Zayid that his recommendation is that the embargo be lifted only after Syria has accomplished the same type of disengagement that Egypt has just concluded. Sadat was also careful to leave the final decision to the oil producers themselves, and he has avoided direct comment on the issue in public. His Algiers statement was not explicitly tied to the oil embargo, and reference to any Arab quid pro quo was dropped completely from the Arab press and radio coverage of the press conference.

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Jan 24, 1974

Central Intelligence Bulletin

4

Sadat gave Zayid no indication that his deferral to Damascus' sensibilities is being repaid by Syrian willingness to begin negotiations with Israel. Recounting his discussion with President Asad on January 19, Sadat expressed particular pleasure with Asad's reasonable attitude but indicated that a number of other Syrian leaders are skeptical of Egyptian intentions and may be ready to sabotage any peace agreement.



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Despite Sadat's apparent rapport with Asad, his remarks about other Syrian leaders indicated that Damascus has still not reached a final decision on whether to negotiate with Israel. Queried by Zayid on what would transpire if Syria decided against negotiations, Sadat remarked pointedly that this would be a decision for which Damascus would bear the consequences.



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JAPAN: Although the country is facing serious balance-of-payments problems, government officials and businessmen appear to be coming around to the view that the domestic economy will not suffer as serious a setback from the energy crisis as previously feared. Industrial production is believed to have declined about 5 percent in December and is expected to register another 2.5-percent decline in January. At its November peak, however, industrial production was 17 percent higher than a year earlier, and growth probably will resume in the second quarter of this year.

Economic disruption from the oil shortage has been much milder than was anticipated at one time. A number of key semimanufactured items--for example, rolled steel, paper, plastics, and chemicals--are in short supply, but some of the shortages predate the energy crisis.

Inflation remains Japan's most immediate problem. Because of supply problems at home and higher import prices, the wholesale price index in December was about 30 percent above the level of December 1972 and consumer prices were up almost 20 percent. To slow the price spiral, Tokyo has moved to tighten fiscal and monetary policies in recent weeks. There is a strong possibility that these moves, in combination with swelling oil import costs, will slow real economic growth even more than is required by the energy supply constraint.

Substantial inflation will persist, whether or not the government continues to restrain demand. Partly because of higher oil costs, wholesale prices are expected to rise 15 percent this year and consumer prices almost as much. The price spiral already is posing a serious political problem for the Tanaka government, and Finance Minister Fukuda has expressed determination to slow it even at the cost of some economic growth. Earlier this week, Fukuda appealed publicly for support for government efforts to dampen inflation and counteract the impact of higher oil costs on the balance of payments.

25X1

Jan 24, 1974

Central Intelligence Bulletin

6

INTERNATIONAL MONETARY DEVELOPMENTS: (Downward pressure on the yen eased in early trading today. During the first hour, the volume of trade amounted to \$45 million, compared with \$250 million yesterday when the Bank of Japan sold a total of \$650 million to maintain the yen at 300 per dollar.) The Tokyo market had been closed since the announcement last weekend that the French franc would be floated, but trading was allowed to resume apparently because of the relative calm prevailing in European financial centers on Tuesday.

(The Japanese Ministry of Finance wants to avoid a series of competitive devaluations, but depreciation of the yen is likely if strong downward pressure resumes.) Some Japanese officials, including Vice Minister of Finance Inamura, suggested earlier in the week that a rate of 320 yen to the dollar might be necessary to bring equilibrium to the market. Others have suggested a return to the Smithsonian rate of 308.

The dollar strengthened somewhat on European exchanges yesterday. The mark declined by 1 percent and the franc by almost as much despite French dollar sales of \$130 million. The Bank of France has now sold about \$250 million to slow the decline of the franc since Paris decided to float its currency. The Bank of Italy, which last week sold an estimated \$350 million to support the lira, has withheld support this week, allowing the lira to decline with the franc. For the second day in a row, gold declined slightly in price--to \$134.50 an ounce. [redacted]

CAMBODIA - NORTH VIETNAM: Sihanouk's current visit to Hanoi, which began on January 22, is his first trip outside China since September, when he attended the nonaligned conference in Algiers. Although the visit has become an annual event that allows him to celebrate Tet with his hosts, the Prince undoubtedly will use the occasion to discuss the Khmer Communists' dry-season campaign. It is unlikely, however, that the discussions will result in a major shift in the insurgents' hard-line strategy.

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Sihanouk's two visits to Hanoi in 1973 coincided with key developments in the Cambodian situation. In late January the Prince tried unsuccessfully to persuade the Khmer Communist forces to respond positively to Phnom Penh's call for a cease-fire--an approach he said was endorsed by both Peking and Hanoi. In early April, Sihanouk returned to Hanoi following a one-month trip to Cambodia that was designed to dramatize his position as nominal head of the insurgency, as well as to put his troubled relations with Khmer Communist leaders in a more positive light.

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EC - MIDDLE EAST: Despite their disarray on community matters, the Nine are increasingly thinking about a future joint role in the Middle East. Taking up a commitment made at last December's summit, the EC members are discussing proposals to set up a number of EC-Arab committees on cooperation in industry, agriculture, energy, technology, education, and raw materials.

The French have been lobbying heavily for some expression of Arab-European cooperation. The other members are also generally in favor of a more substantial, and joint, European presence in the area, but some--the Dutch for example--are concerned about conflicting with US efforts in the Middle East.

In recent meetings, the community's Political Committee and a Middle East working group have addressed the question of cooperation with the Arabs, along with peace guarantees and economic aid to Palestinians and "war-devastated areas."

If enough progress were made on cooperative projects to justify a conference of EC-Arab foreign ministers--a possibility the EC is weighing for later this year--and if the Nine could formulate a meaningful aid program, Western Europe's effort to play a part in guaranteeing an eventual peace settlement would be strengthened. The EC position would be represented by France and Britain, through their roles in the UN Security Council.

A German official, however, has described the work of the Middle East experts as being still at an early stage and "rather academic." The discussion of economic aid, he said, revealed the members' reluctance to accept new obligations.

The discussion on peace guarantees is essentially an effort to update a set of ideas worked out in 1971. The proposals remained "in the files" after news of their existence occasioned a public row among the EC members, who at that time were more divided than now in their attitude toward the Arab-Israeli conflict.

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Jan 24, 1974

Central Intelligence Bulletin

10

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026000160001-5

Next 1 Page(s) In Document Exempt

Approved For Release 2004/07/08 : CIA-RDP79T00975A026000160001-5

CHILE: The government this week issued a regulation banning specific activities by the moderate and conservative political parties that it declared in "recess" after the junta took power. The leftist parties were outlawed at that time, and their status has not been changed.

The new regulation, carrying on the regime's effort to "depoliticize" the nation completely, defines the "recess" as a "situation of inactivity that affects all attempts to achieve the goals of a party, without actually ending its existence." This restricts even the Christian Democrats who have cooperated with the government.

The parties have survived three months under the original "recess" decree, but if the long list of activities specifically prohibited by the new regulation is strictly enforced for an extended period of time, they will suffer severely. The long-range effect of the regulation will depend on what strategies the parties can devise to circumvent it so as to ensure their survival, and on the length and strength of the junta's commitment to strict enforcement.

The junta's broad disdain for politics and politicians apparently continues to outweigh entreaties by the Christian Democrats that only the Communists and other leftists skilled in the art of clandestine activity stand to gain from a strict political moratorium.

ARGENTINA: President Peron's dramatic call for a national mobilization to destroy terrorism has, at least temporarily, united a large part of the fractious Argentine community behind him and isolated his opponents.

The audacious, bloody attack by Marxist People's Revolutionary Army guerrillas on a military garrison last weekend has resulted in shock and outrage, even in a society inured to growing violence. The raid also was a tactical disaster, and the terrorists are publicly admitting it. Although there are conflicting reports, as many as 20 terrorists may have been killed and hundreds of suspected extremists rounded up in large-scale police operations.

Military leaders seem reassured by Peron's tough response. Although their role in the counterterrorist drive is still not clear, most officers see recent developments as a watershed that will mark the end of Peron's policy of restraint toward the extremist groups. The President's blast against unidentified provincial authorities for being soft on leftists--a clear move to force the ouster of administrators who are out of step with his policies--was particularly welcomed by the military.

The left-leaning governor of Buenos Aires Province, where the guerrilla incident occurred, resigned yesterday, and there are press reports that the province will be taken over by central government officials. Similarly, the governor and leftist labor leaders in Cordoba Province are under fire and will, at least for a while, be more cautious in their opposition to policies of the federal government.

The left-wing youth of the Peronist Movement, and even the Peronist guerrilla organization, have denounced the terrorists' actions, but they have also condemned as "repressive" the draft laws now before Congress which are aimed at tightening anti-terrorist legislation. While they may continue demonstrating against the laws, their position has been weakened and the legislation will undoubtedly be promulgated soon.

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Jan 24, 1974

Central Intelligence Bulletin

13

Although recent events clearly have presented Peron with a unique opportunity to strike a hard blow at the terrorists, there are dangers inherent in the situation. Heavy-handed actions in political purges of his movement or in security operations may soon undercut the psychological advantage he now holds and drive the Peronist left wing into the extremist camp. The military could also quickly become disenchanted if Peron does not follow up his pronouncements with further action.

China: The Party Commands the Gun

The new year has already seen two major developments in internal Chinese politics--the unprecedented rotation of eight high-ranking military men, in effect dislodging nearly all of them from well-entrenched provincial bases, and the reinstatement of the once-disgraced Teng Hsiao-ping to the Politburo and his appointment to the highly important Military Affairs Commission. Taken together, these moves represent an evolution in the domestic political scene at least as important as the reconstitution of the Politburo at the Tenth Party Congress last August.

As a result, prospects for convening the long-postponed National People's Congress now seem brighter, and it may also be possible to fill long-vacant central military posts. Moreover, there has almost certainly been a reduction in the danger that certain disgruntled military leaders in the provinces might combine with ultraleftists in Peking in opposition to moderate policies that have been in effect at home and abroad for the past several years. Nevertheless, the recent moves do not signal the end to political problems within the leadership; indeed, they may run the risk of creating new ones.

Military Commanders Shifted

The rotation of military commanders speeds up what had been a gradual effort to ease military leaders out of top provincial party and government posts. As early as the spring of 1971, Chou En-lai had expressed uneasiness over the pervasive role of the military in provincial affairs, and the question of the army's proper place in politics was unquestionably a major element in the fall of Defense Minister Lin Piao the following autumn.

In the aftermath of that imbroglio, a return to civilian party leadership in the provinces was never really in doubt; the only question was how

rapidly it could take place. A selective purge of military men in provincial leadership posts-- comprising men who had somehow been linked to the Lin "conspiracy"--began at once and did not run its course until the summer of 1972. The pace of reducing the power of provincial military leaders then slowed considerably, and few were replaced outright. The party committees they headed, however, were enlarged by the addition of civilian party cadre.

Plans for a further large reduction in the number of soldiers in provincial party posts were probably made in preparation for the Tenth Party Congress, but stiff opposition to these plans from at least one key regional commander threatened to complicate and perhaps scuttle the congress. Chen Hsi-lien, then commander of Shenyang Military Region as well as first secretary of the party committee in Liaoning Province, sponsored a campaign in the Liaoning media to oppose the extensive use of university entrance examinations. The politically astute Chen may have seized this issue as a ploy to divert the Peking leadership from its move to reduce the army's political role, or even to raise the specter of a potential radical-military alliance.

The resistance of the military, symbolized by Chen, may well have postponed a more drastic dilution of the army's political role than that which occurred at the party congress. The number of military men on the Central Committee was significantly reduced, but Chen and the others on the Politburo who were not implicated in Lin Piao's abortive military coup retained their positions.

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The Return of Teng Hsiao-ping

The complete rehabilitation of Teng Hsiao-ping, who had been party secretary general before the Cultural Revolution, very likely was also discussed about the time of the congress. The fact that he was not then named to the Politburo strongly suggests that considerable opposition to such a move had not been overcome by the summer. This opposition may have existed among military figures who wished to retain a significant political role for the PLA as well as among some ultraleftists who had helped engineer his downfall in 1966. Teng's appointment to the Military Affairs Commission also strongly suggests that he will play a significant role in the formulation of policy affecting the military--quite possibly in connection with a redefinition of the army's political role. His posting strongly affirms the principle that the "party commands the gun."

The final terms for the rotation of the regional commanders, as well as Teng's appointment, probably were negotiated at high-level meetings after the congress. Unlike the provincial military figures who vanished after the Lin affair, the men involved were not purged but only changed jobs; the media are recording their appearances in their new bailiwicks and have in fact given most of them considerable publicity. Nevertheless, the only titles they now hold pertain strictly to their military duties. The regime will almost certainly find it easier to appoint civilian cadre to the leading party and government posts that have now become vacant in the several provinces affected by the rotation. This would have been more difficult had Peking attempted to deprive these powerful men of their party and government titles while leaving them entrenched in their former strongholds.

The Struggle Is Not Over

They were permitted to save face, and this testifies to the still-formidable strength of China's leading military figures as well as to the leadership's desire to avoid divisive solutions. Indeed,

Jan 24, 1974

Central Intelligence Bulletin

17

Approved For Release 2004/07/08 : CIA-RDP79T00975A026000160001-5

the way the media are currently treating the military--giving it only limited praise while emphasizing the necessity for discipline and party control--suggests that Peking is wary of that strength and may anticipate further trouble from among the army's leaders.

A clearer reading of the regime's attitude toward the army will be possible when the topmost positions in the military establishment are filled. Marshal Yeh Chien-ying, a 75-year-old member of the Standing Committee of the Politburo, is a probable choice for defense minister. A close associate of Chou En-lai, Yeh has in effect filled the post since Lin Piao vacated it. While Teng Hsiao-ping may also be a candidate for that job, he could instead become chief of the General Political Department. That post apparently was vacated by the transfer of Li Te-sheng, who had held the job for several years, to the Shenyang Military Region.

There are several possible candidates for chief of staff. The selection of a professionally oriented officer would be consistent with the effort to de-emphasize the military's involvement in politics. This would also be true if the new chief of staff had a public security or other quasi-military background. On the other hand, the appointment of a man from the ranks of the army's political commissars or a commander who has been heavily involved in politics since the Cultural Revolution would tend to accord a continuing political role to the military.

The selection of the military figures who will occupy the top posts, as well as some general guidelines on the military's role in national affairs, may well have been part of a bargain reached by the party and military elements involved before the shifts of regional commanders took place. Not all elements in this equation have necessarily been worked out, however, and some further horse-trading may lie ahead.

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Jan 24, 1974

Central Intelligence Bulletin

18

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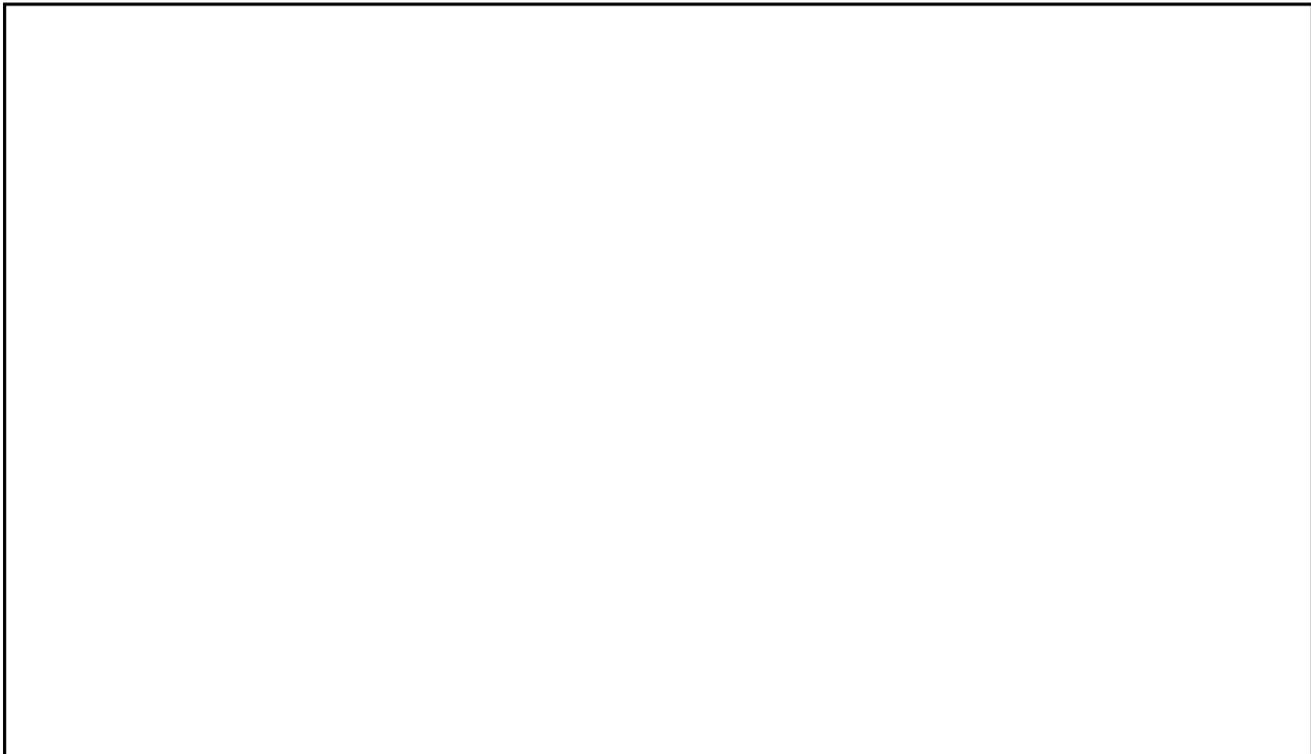
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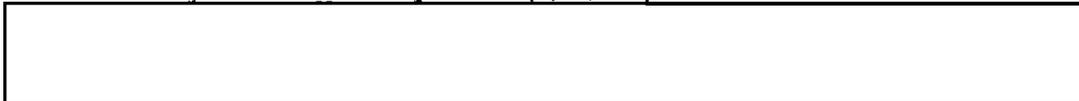
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FOR THE RECORD*



Abu Dhabi - Yugoslavia: An Abu Dhabi official has just concluded a week's visit to Yugoslavia, according to a press report. The visit included tours of munitions factories and demonstrations of Belgrade's latest military hardware, and discussion of additional ground force equipment for the 10,000-man Abu Dhabi Defense Force (ADDF). [REDACTED]



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